
Financial Statements 2002

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Directors' Report

The Directors submit to the shareholders their Report together with the audited Financial Statements for the year ended 31 December 2002.

Activities

The Company is the holding company of the Bank of Cyprus Group. The principal activities of the Company and its subsidiaries during the year were the provision of banking and financial services, insurance business and property and hotel business.

Results

The profit before provision for impairment of investments for 2002 amounts to	C£9 581 thousand
compared with profit for 2001 of	C£67 289 thousand

The loss after provision for impairment of investments and after tax for 2002 amounts to	C£(21 398) thousand
compared with profit for 2001 of	C£46 517 thousand

Dividends

In 2002, dividend at 16% (8 cents per share) was paid as final dividend for 2001. The Board of Directors does not propose the payment of dividend for 2002.

Share Capital

During the year, the issued share capital increased by C£2 359 thousand as a result of dividend reinvestment and by C£184 thousand as a result of the conversion of loan stock, as mentioned in Note 31.

Board of Directors

The Directors of the Company are listed on page 4. All of them were members of the Board throughout the year 2002, except for Ms A. Diogenous and Mr. G. M. Georgiades who were appointed on 7 February 2002 and Messrs A. Jacovides and Chr. Mouskis who were appointed on 6 February 2003.

Constantinos Leventis, a director of the Company since 1995, died on 11 July 2002. During his service as director he offered valuable services to the Group and his absence is sadly felt.

Mr. Chr. Ioannou, director of the Company since 2001, resigned on 26 July 2002. The other members of the Board express their appreciation for the valuable services that Mr. Chr. Ioannou has offered to the Group.

In accordance with the Company's Articles of Association, Messrs S. Triantafyllides, Chr. Pantzaris, V. Rologis, Chr. Christofides, A. Artemis, A. Jacovides and Chr. Mouskis retire and, being eligible, offer themselves for re-election. The vacancies so created will be filled by election.

Auditors

The auditors of the Company, Ernst & Young, have signified their willingness to continue in office. A resolution for their re-appointment and authorising the directors to fix their remuneration will be proposed at the Annual General Meeting.

S. A. Triantafyllides

Chairman

25 February 2003

Consolidated Income Statement

for the year ended 31 December 2002

	Notes	2002 C€000	2001 C€000
Turnover	2	606 287	589 542
Interest income	3	447 834	439 529
Interest expense	4	(272 306)	(279 788)
Net interest income		175 528	159 741
Fee and commission income		78 189	73 578
Fee and commission expense		(4 277)	(3 462)
Foreign exchange income		14 445	14 807
(Losses)/gains on sale and revaluation of financial instruments	5	(622)	421
Income from insurance business	6	13 444	15 460
Other income	7	4 888	5 021
		281 595	265 566
Staff costs	8	(117 658)	(101 210)
Other administrative expenses		(74 214)	(72 823)
Profit before provisions and profit on disposal of investment in jointly controlled entity		89 723	91 533
Provisions for bad and doubtful debts	16	(80 142)	(33 077)
Profit on disposal of investment in jointly controlled entity	9	–	8 833
Profit before provision for impairment of available-for-sale investments		9 581	67 289
Provision for impairment of available-for-sale investments - transfer from revaluation reserve	18	(23 562)	(850)
(Loss)/profit before tax	10	(13 981)	66 439
Tax	11	(7 417)	(19 922)
(Loss)/profit after tax		(21 398)	46 517
(Loss)/earnings per share (cents)	12	(4,9)	10,7
Fully diluted (loss)/earnings per share (cents)	12	(4,9)	10,3

Consolidated Balance Sheet

as at 31 December 2002

	Notes	2002 C€000	2001 C€000
Assets			
Cash and balances with central banks	13	570 478	364 528
Treasury bills	14	222 773	243 411
Placements with banks	15	923 691	1 206 973
Loans and advances to customers	16	4 766 742	4 224 794
Debt securities	17	1 056 317	1 067 682
Equity shares	18	45 574	52 884
Property and equipment	20	141 634	138 428
Intangible assets	21	17 125	11 502
Other assets	22	109 661	119 873
Prepayments and accrued income	23	95 777	67 439
		7 949 772	7 497 514
Life assurance business net assets attributable to policyholders	24	176 156	183 352
Total assets		8 125 928	7 680 866
Liabilities			
Amounts due to banks	25	205 896	330 637
Customer deposits	26	6 836 268	6 277 184
Debt securities in issue	27	288	3 750
Other liabilities	28	119 196	82 965
Accruals and deferred income	29	95 568	74 681
		7 257 216	6 769 217
Life assurance business liabilities to policyholders	24	176 156	183 352
Subordinated loan stock	30	186 536	187 242
Shareholders' funds			
Share capital	31	218 724	216 181
Share premium		218 464	213 430
Revaluation reserves		38 846	25 121
Exchange adjustments		(2 005)	(2 075)
Retained earnings		31 991	88 398
		506 020	541 055
Total liabilities and shareholders' funds		8 125 928	7 680 866
Contingent liabilities and commitments			
Contingent liabilities	33	640 081	570 221
Commitments	33	976 325	828 296

S. A. Triantafyllides, *Chairman*
 Chr. S. Pantzaris, *Vice Chairman and Chief Executive of Bank of Cyprus*
 E. Xenophontos, *Director and Group Chief General Manager*
 Y. Kyri, *Group General Manager Finance*
 Chr. Hadjimitsis, *Group Financial Controller*

Consolidated Statement of Changes in Equity

for the year ended 31 December 2002

	Share capital	Share premium	Revaluation reserves	Exchange adjustments	Retained earnings	Total shareholders' funds
	C€000	C€000	C€000	C€000	C€000	C€000
YEAR 2001						
At 1 January 2001	216 129	213 349	45 037	(2 013)	100 386	572 888
Profit after tax	–	–	–	–	46 517	46 517
Dividends (Note 32)	–	–	–	–	(56 202)	(56 202)
Revaluation of available-for-sale investments						
- equity shares	–	–	(24 529)	–	–	(24 529)
- debt securities	–	–	2 912	–	–	2 912
Deferred tax	–	–	(312)	–	–	(312)
Exchange adjustments	–	–	–	(139)	–	(139)
Conversion of loan stock into shares	52	81	–	–	–	133
Increase in value of life assurance policies in force	–	–	2 990	–	(2 990)	–
Transfer to retained earnings of the realised profit on disposal of property	–	–	(687)	–	687	–
Transfer to the Income Statement on sale of available-for-sale investments and disposal of investment in jointly controlled entity	–	–	(290)	77	–	(213)
At 31 December 2001	216 181	213 430	25 121	(2 075)	88 398	541 055
YEAR 2002						
At 1 January 2002	216 181	213 430	25 121	(2 075)	88 398	541 055
Loss after tax	–	–	–	–	(21 398)	(21 398)
Dividends (Note 32)	–	–	–	–	(34 612)	(34 612)
Revaluation of available-for-sale investments						
- equity shares	–	–	(6 830)	–	–	(6 830)
- debt securities	–	–	5 101	–	–	5 101
Fair value change of financial instruments designated as cash flow hedges	–	–	(6 999)	–	–	(6 999)
Revaluation of property on transfer to investment property	–	–	(12)	–	–	(12)
Transfer to the Income Statement for the provision of impairment of available-for-sale investments	–	–	23 562	–	–	23 562
Deferred tax	–	–	(559)	–	–	(559)
Exchange adjustments	–	–	–	70	–	70
Conversion of loan stock into shares	184	268	–	–	–	452
Dividend reinvestment	2 359	4 766	–	–	–	7 125
Increase in value of life assurance policies in force	–	–	475	–	(475)	–
Transfer to retained earnings of the realised profit on disposal of property	–	–	(78)	–	78	–
Transfer to the Income Statement on redemption/sale of available-for-sale investments	–	–	(935)	–	–	(935)
At 31 December 2002	218 724	218 464	38 846	(2 005)	31 991	506 020

Consolidated Cash Flow Statement

for the year ended 31 December 2002

	Notes	2002 C€000	2001 C€000
Net cash flows from operating activities	35	135 670	571 286
Cash flows from investing activities			
Purchase of debt securities		(442 757)	(455 193)
Proceeds on sale and redemption of debt securities		225 867	120 514
Interest received on debt securities		58 933	42 395
Purchase of equity shares		(5 247)	(11 329)
Proceeds from sale of equity shares		416	221
Dividend income from equity shares		496	1 265
Purchase of property and equipment		(17 093)	(24 602)
Proceeds from disposal of property and equipment		670	3 003
Purchase of intangible fixed assets		(10 735)	(5 620)
Acquisition of subsidiary company	36	–	(2 522)
Proceeds from disposal of jointly controlled entity	9	–	10 390
Net cash flows used in investing activities		(189 450)	(321 478)
Cash flows from financing activities			
Issue of loan stock		–	157 693
Interest paid on loan stock		(9 258)	(6 687)
Dividends paid		(27 487)	(56 202)
Net cash flows (used in)/from financing activities		(36 745)	94 804
Net (decrease)/increase in cash and cash equivalents for the year	37	(90 525)	344 612

Income Statement

for the year ended 31 December 2002

	Notes	2002 €000	2001 €000
Turnover		495 084	474 195
Interest income	3	399 097	385 303
Interest expense	4	(256 936)	(259 564)
Net interest income		142 161	125 739
Fee and commission income		65 451	60 443
Fee and commission expense		(2 565)	(2 846)
Foreign exchange income		13 432	13 587
Dividends received from subsidiary companies		15 208	13 006
Gains on sale and revaluation of financial instruments	5	2 877	4 444
Other income	7	1 896	1 856
		238 460	216 229
Staff costs	8	(95 148)	(79 040)
Other administrative expenses		(60 026)	(55 401)
Profit before provisions and profit on disposal of investment in jointly controlled entity		83 286	81 788
Provisions for bad and doubtful debts	16	(71 303)	(27 442)
Profit on disposal of investment in jointly controlled entity	9	–	11 966
Profit before provision for impairment of available-for-sale investments		11 983	66 312
Provision for impairment of available-for-sale investments - transfer from revaluation reserve	18	(10 888)	(850)
Profit before tax	10	1 095	65 462
Tax	11	(2 443)	(12 896)
(Loss)/profit after tax		(1 348)	52 566

Balance Sheet

as at 31 December 2002

	Notes	2002 C€000	2001 C€000
Assets			
Cash and balances with central banks	13	564 603	357 422
Treasury bills	14	222 306	242 787
Placements with banks	15	802 790	1 104 281
Loans and advances to customers	16	3 840 419	3 424 179
Amounts due from Group companies		580 065	480 620
Debt securities	17	921 280	939 221
Equity shares	18	21 123	24 885
Investments in Group companies	19	211 171	207 895
Property and equipment	20	108 453	103 693
Intangible assets	21	14 776	8 257
Other assets	22	59 627	71 655
Prepayments and accrued income	23	90 175	62 977
Total assets		7 436 788	7 027 872
Liabilities			
Amounts due to banks	25	198 083	327 327
Customer deposits	26	6 285 522	5 769 308
Amounts due to Group companies		99 826	93 438
Other liabilities	28	80 290	51 130
Accruals and deferred income	29	79 938	58 372
		6 743 659	6 299 575
Subordinated loan stock	30	186 536	187 242
Shareholders' funds			
Share capital	31	218 724	216 181
Share premium		218 464	213 430
Revaluation reserves		13 129	9 112
Revaluation of investments in Group companies		50 649	60 959
Exchange adjustments		(727)	(916)
Retained earnings		6 354	42 289
		506 593	541 055
Total liabilities and shareholders' funds		7 436 788	7 027 872
Contingent liabilities and commitments			
Contingent liabilities	33	645 049	585 058
Commitments	33	922 756	774 726

S. A. Triantafyllides, *Chairman*
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 Y. Kyprí, *Group General Manager Finance*
 Chr. Hadjimitsis, *Group Financial Controller*

Statement of Changes in Equity

for the year ended 31 December 2002

	Share capital	Share premium	Revaluation reserves	Revaluation of investments in Group companies	Exchange adjustments	Retained earnings	Total shareholders' funds
	C€000	C€000	C€000	C€000	C€000	C€000	C€000
YEAR 2001							
At 1 January 2001	216 129	213 349	22 610	76 287	(964)	45 477	572 888
Profit after tax	–	–	–	–	–	52 566	52 566
Dividends (Note 32)	–	–	–	–	–	(56 202)	(56 202)
Revaluation of available-for-sale investments							
- equity shares	–	–	(15 369)	–	–	–	(15 369)
- debt securities	–	–	2 991	–	–	–	2 991
Deferred tax	–	–	(663)	–	–	–	(663)
Exchange adjustments	–	–	–	–	48	–	48
Conversion of loan stock into shares	52	81	–	–	–	–	133
Transfer to the Income Statement for the disposal of investment in jointly controlled entity	–	–	–	(3 056)	–	–	(3 056)
Transfer to retained earnings of the realised profit on disposal of property	–	–	(448)	–	–	448	–
Transfer to the Income Statement on sale of available-for-sale investments	–	–	(9)	–	–	–	(9)
Revaluation for the year	–	–	–	(12 272)	–	–	(12 272)
At 31 December 2001	216 181	213 430	9 112	60 959	(916)	42 289	541 055
YEAR 2002							
At 1 January 2002	216 181	213 430	9 112	60 959	(916)	42 289	541 055
Loss after tax	–	–	–	–	–	(1 348)	(1 348)
Dividends (Note 32)	–	–	–	–	–	(34 612)	(34 612)
Revaluation of available-for-sale investments							
- equity shares	–	–	(3 888)	–	–	–	(3 888)
- debt securities	–	–	5 648	–	–	–	5 648
Fair value change of derivatives designated as cash flow hedges	–	–	(6 904)	–	–	–	(6 904)
Revaluation of property on transfer to investment property	–	–	213	–	–	–	213
Transfer to the Income Statement for the provision of impairment of available-for-sale investments	–	–	10 888	–	–	–	10 888
Deferred tax	–	–	(967)	–	–	–	(967)
Exchange adjustments	–	–	–	–	189	–	189
Conversion of loan stock into shares	184	268	–	–	–	–	452
Dividend reinvestment	2 359	4 766	–	–	–	–	7 125
Transfer to retained earnings of the realised profit on disposal of property	–	–	(25)	–	–	25	–
Transfer to the Income Statement on redemption/sale of available-for-sale investments	–	–	(948)	–	–	–	(948)
Revaluation for the year	–	–	–	(10 310)	–	–	(10 310)
At 31 December 2002	218 724	218 464	13 129	50 649	(727)	6 354	506 593

Summary of Significant Accounting Policies

The accounting policies followed in respect of items that are considered material for the results and the financial position of the Group and the Company are stated below.

Basis of preparation

The consolidated Financial Statements are drawn up in accordance with the provisions of the Cyprus Companies Law, the Cyprus Stock Exchange Law and Regulations and International Financial Reporting Standards, which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations, approved by the International Accounting Standards Committee that remain in effect.

The Financial Statements are expressed in Cyprus pounds (C£) and are prepared under the historical cost convention, modified to include the revaluation of freehold property, investment property, investments held-for-trading, available-for-sale investments and investments in Group companies.

Where necessary, comparative amounts were reclassified to conform with the presentation adopted in the current year.

Basis of consolidation

The consolidated Financial Statements comprise the Financial Statements of Bank of Cyprus Ltd (the "Company") and all its subsidiaries and jointly controlled companies, which together are referred to as the "Group".

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The interest in jointly controlled companies is included in the consolidated Financial Statements in proportion to the Group's share in the capital of the investee company (proportional consolidation).

All significant intercompany transactions and balances are eliminated on consolidation.

Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences arising on translation are taken to the Income Statement with the exception of differences on foreign currency liabilities, that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the Income Statement.

The assets and liabilities of overseas subsidiaries and branches are translated at the rate of exchange ruling at the balance sheet date. The income statements of overseas subsidiaries and branches are translated using average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to equity. On disposal of a foreign entity, accumulated exchange differences are recognised in the Income Statement as a component of the gain or loss on disposal.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of the holding company and is recorded at the exchange rate ruling on the date of the transaction.

Turnover

Group turnover represents interest income, fee and commission income, foreign exchange income, gross insurance premiums, turnover of property and hotel business and other income.

Company turnover represents interest income, fee and commission income, foreign exchange income, dividends received from subsidiary companies and other income.

Interest, fees and commissions

Generally, interest income is recognised in the Income Statement on an accruals basis. Interest is suspended on all loans and advances that are considered doubtful and for which a specific provision has been made. Such interest is not credited to income but is taken to an interest in suspense account and is only released to the Income Statement when its collectability is no longer subject to significant doubt.

Fee and commission income is recognised on the basis of work done to match the cost of providing the service and those in respect of credit risk are recognised in the Income Statement, on a systematic basis over the period of the exposure.

Insurance business

Insurance premiums are recognised when these are receivable, except for premiums on unit linked investment plans which are recognised when they are received. Reinsurance premiums are recognised at the same time as the respective insurance premiums.

Full provision is made for the estimated cost of claims, less amounts recoverable from reinsurers.

The results from insurance business are arrived at after the deduction of the provisions for claims and the transfers to reserves for unexpired risks. The actuarial reserves for the life assurance business are determined on the basis of an annual actuarial valuation.

Loans and advances

Loans and advances originate when money is provided directly to the borrowers and are measured initially at cost, being the fair value of the consideration given including transaction costs. Loans and advances are subsequently measured at amortised cost using the effective yield method.

Loans and advances are stated net of specific and general provisions. Loans and advances are written off to the extent that there is no realistic prospect of recovery.

The collectability of loans and advances to customers is evaluated based on the individual customer's overall financial condition, resources and payment record, the prospects for support from any creditworthy guarantors and the realisable value of any collateral.

A loan is considered as impaired when it is probable that the Group will not be able to collect all amounts due according to the original contractual terms, unless such loans are secured or other factors exist where the Group expects, that all future cash flows will be received.

When a loan has been identified as impaired, the carrying amount of the loan is reduced to the estimated recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at original effective interest rate.

All impaired loans are monitored continuously and are reviewed for provisioning purposes every six months. Any subsequent changes to the recoverable amounts and timing of the expected future cash flows, are compared to prior estimates and any differences result in a corresponding charge/credit to the Income Statement. A provision for an impaired loan is reversed only when the credit quality has improved so that there is reasonable assurance that principal and interest according to the original terms of the loan will be collected timely.

A general provision is also made where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These are estimated on the basis of past experience, current economic conditions, the customers' creditworthiness and other relevant factors.

Leasing and hire purchase transactions

Amounts due from customers under finance leases and hire purchase agreements are included, after deduction of unearned charges, in loans and advances to customers. Rental income and charges are credited to the Income Statement on a pattern reflecting the instalments falling due.

Summary of Significant Accounting Policies

Investments in debt securities and equity shares

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

Investments are classified into three categories: investments held-to-maturity, available-for-sale investments and investments held-for-trading. Management determines the appropriate classification of its investments at the time of the purchase.

Investments with fixed maturity, where the Group has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

Investments intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

Investments which are acquired for generating a profit from short-term fluctuations in price are classified as held-for-trading. Investments are also classified as held-for-trading if, regardless of why they were acquired, they are part of a portfolio for which there is evidence of a recent pattern of short term profit-taking.

Held-to-maturity investments are carried at amortised cost, which is calculated by taking into account acquisition cost less any discount or premium on acquisition, less any provision for impairment.

Available-for-sale investments are measured at fair value based on quoted market prices for listed securities. The fair value of unquoted securities is estimated using recognised models/methods or is based upon review of the investee's financial results, condition and prospects including comparisons to similar companies for which quoted market prices are available.

Gains and losses arising from changes in the fair value of available-for-sale investments are recognised in equity. In case of sale or impairment, the profit or loss recognised in equity is transferred to the Income Statement.

Trading securities are measured at fair value based on quoted prices. All related realised and unrealised gains and losses are included in the Income Statement.

An investment is considered impaired if its carrying amount exceeds the recoverable amount. Available-for-sale investments are considered as impaired if the decline in the fair value below cost is of such a magnitude that recovery of the cost value cannot be reasonably expected within the foreseeable future. The amount of the impairment loss is the difference between cost and fair value. The amount of the impairment loss for investments held-to-maturity is calculated as the difference between the carrying amount of the investment and the present value of expected future cash flows discounted at the original effective interest rate of the investment.

All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward contracts until settlement.

Interest earned on debt securities is reported as interest income. Dividend income from equity shares is recognised when received.

Investment in subsidiaries and jointly controlled entities

The Company's investments in subsidiary companies and jointly controlled entities are measured at fair value at the balance sheet date based on the Company's share of the net assets of these companies. Gains and losses arising from changes in the fair value of investments in subsidiary companies are recognised in the revaluation reserve. In case of sale or impairment, the profit or loss recognised in equity is transferred to the Income Statement.

Life assurance business

The value placed on the Group's life assurance business attributable to shareholders represents the attributable net assets plus a prudent estimate, based on the advice of qualified actuaries, of the present value of the future earnings from policies in force. Changes in the value placed on life assurance business are taken to the Income Statement grossed up for notional tax.

Property and equipment

Owner-occupied property is defined as property held by the Group for use in the supply of services or for administrative purposes, whereas investment property is defined as property held by the Group to earn rentals and/or for capital appreciation. If a property of the Group includes a portion that is owner-occupied and another portion that is held to earn rentals or for capital appreciation, the classification is based on whether or not these portions can be sold separately. If the portions cannot be sold separately, the whole property is classified as owner-occupied property unless the owner-occupied portion is insignificant. The classification of property is reviewed on a regular basis to account for major changes in its use.

Owner-occupied property is measured at fair value less accumulated depreciation. Valuations are carried out periodically by independent valuers. Depreciation is provided on the revalued amount less the estimated residual value of buildings on a straight line basis over their expected useful life of 35 to 67 years. On disposal of freehold land and buildings, the relevant revaluation reserve balance is transferred to retained earnings.

Investment property is measured at fair value. Any gains or losses arising from the change in fair value are recognised in the Income Statement in the period in which they arise.

Leasehold property is measured at cost less accumulated depreciation. The cost of short leases is amortised over the period of the lease. The cost of adapting/improving leasehold property for use by the Group is amortised over 5 years or the period of the lease.

Owner-occupied property which the Group has decided to dispose of and foreclosed property, are defined as properties held for sale and are carried at the lower of cost or recoverable amount and included under other assets in the balance sheet.

Equipment and computer software are measured at cost less accumulated depreciation. Depreciation of equipment is provided on a straight line basis over its expected useful life of 5 to 10 years. Computer software cost is amortised on a straight line basis over its expected useful life of 3 to 5 years.

Goodwill and licence fees

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary, associate or joint venture at the date of acquisition. Goodwill is amortised on a straight-line basis over its useful economic life up to a maximum of 10 years.

Licence fees are measured at cost less accumulated amortisation. Amortisation is provided on a straight line basis over the expected useful life of the asset up to a maximum of 10 years.

At each balance sheet date, goodwill and licence fees are reviewed for indications of impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. A write-down is made if the carrying amount exceeds the recoverable amount.

Summary of Significant Accounting Policies

Derivatives

Derivative financial instruments include forward foreign exchange contracts, currency and interest rate swaps, equity linked swaps and options, currency and interest rate options and other derivative financial instruments.

Derivatives are initially recognised in the balance sheet at cost (including transaction costs) and are subsequently measured at fair value. Fair values are estimated using quoted market prices, discounted cash flow models and options pricing models as appropriate.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

For derivatives held for trading, any gains or losses arising from changes in fair value are taken to the Income Statement.

The Group also uses derivative financial instruments to hedge risks associated with interest rate and foreign currency fluctuations. The Group applies either fair value or cash flow hedge accounting for derivatives when the specified criteria for hedge accounting treatment are met. For derivative instruments not qualifying for hedge accounting, gains or losses arising from changes in the fair value, are recognised in the Income Statement.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the Income Statement. Gains or losses on the hedged item attributable to the hedged risk, are adjusted against the carrying amount of the hedged items and recognised in the Income Statement.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the Income Statement.

For cash flow hedges, the gains or losses that are recognised in equity are transferred to the Income Statement in the same period in which the hedged transaction affects the net profit and loss. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Income Statement for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting.

In some cases, a derivative may be part of a hybrid instrument that includes both a derivative and a host contract. This is known as an embedded derivative. An embedded derivative is separated from the host contract and accounted for as a stand alone derivative instrument if and only if the following conditions are met: the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, the host contract is not carried at fair value with changes in fair value reported in the Income Statement, and the embedded derivative meets the definition of a derivative.

Retirement benefits

The cost of providing benefits under defined benefit plans is estimated annually using the projected unit credit actuarial valuation method. The surplus or deficit, arising from differences between the expected and actual return on plan assets and other actuarial assumptions, is recognised as income or expense over the expected average remaining working lives of the employees participating in the plans.

The cost of providing benefits under defined contribution and early retirement schemes is taken to the Income Statement on an accruals basis.

Taxation on income

Taxation on income is provided in accordance with the fiscal regulations and rates, which apply in the countries where the Group carries on its operations and is recognised as an expense in the period in which the income arises. Deferred tax is provided using the liability method.

Deferred income tax liabilities are recognised for all taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date for financial reporting purposes, which will result in taxable amounts in future periods.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.

Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and balances with central banks, placements with banks and other instruments that are readily convertible into known amounts of cash or are repayable within three months.

Notes to the Financial Statements

I. CORPORATE INFORMATION

The consolidated Financial Statements of Bank of Cyprus Group and the Financial Statements of Bank of Cyprus Limited for the year ended 31 December 2002 were authorised for issue in accordance with a resolution of the Board of Directors on 25 February 2003.

The Company was incorporated in Cyprus as a public company within the meaning of the provisions of the Cyprus Companies, Cyprus Stock Exchange and Income Tax laws.

The Company is the holding company of the Bank of Cyprus Group. The principal activities of the Company and its subsidiaries during the year were the provision of banking and financial services, insurance business and property and hotel business.

2. SEGMENTAL ANALYSIS

The Group has three principal areas of activity: banking and financial services, life and general insurance business and property and hotel business.

The business of the Group is mainly conducted in three geographical areas: (a) Cyprus, (b) Greece, and (c) other countries, mainly the United Kingdom and Australia.

The primary reporting format is for areas of activity.

Areas of Activity

	Banking and financial services C£000	Insurance business C£000	Property and hotel business C£000	Total C£000
2002				
Turnover	542 746	57 611	5 930	606 287
(Loss)/profit before tax - as per the Income Statement	(22 398)	5 973	2 444	(13 981)
Expenses included above:				
Provision for impairment of available-for-sale investments	22 987	575	–	23 562
Recognised retirement benefits for previous years	7 669	218	–	7 887
Provisions for bad and doubtful debts	80 142	–	–	80 142
Profit before deduction of the above expenses and tax	88 400	6 766	2 444	97 610
Assets	7 882 437	231 986	36 339	8 150 762
Inter-segment assets				(24 834)
Total assets				8 125 928
Liabilities	7 423 519	194 160	9 276	7 626 955
Inter-segment liabilities				(7 047)
Total liabilities				7 619 908
Capital expenditure	23 705	379	137	24 221
Depreciation and amortisation	16 308	586	310	17 204

2. SEGMENTAL ANALYSIS (continued)**Areas of Activity** (continued)

	Banking and financial services C€000	Insurance business C€000	Property and hotel business C€000	Total C€000
2001				
Turnover	530 583	52 260	6 699	589 542
Profit before tax - as per the Income Statement	55 727	8 489	2 223	66 439
Expenses/(gains) included above:				
Provision for impairment of available-for-sale investments	850	–	–	850
Profit on disposal of investment in jointly controlled entity	(8 833)	–	–	(8 833)
Provisions for bad and doubtful debts	33 077	–	–	33 077
Profit before above expenses/(gains) and tax	80 821	8 489	2 223	91 533
Assets	7 429 341	236 389	35 265	7 700 995
Inter-segment assets				(20 129)
Total assets				7 680 866
Liabilities	6 932 093	202 634	11 017	7 145 744
Inter-segment liabilities				(5 933)
Total liabilities				7 139 811
Capital expenditure	27 796	2 046	380	30 222
Depreciation and amortisation	14 094	570	202	14 866

Geographical areas

	Cyprus C€000	Greece C€000	Other countries C€000	Total C€000
2002				
Turnover	410 173	159 158	54 079	623 410
Inter-segment turnover, mainly interest	(13 419)	(2 716)	(988)	(17 123)
Turnover with external customers	396 754	156 442	53 091	606 287
(Loss)/profit before tax - as per the Income Statement	(35 832)	18 321	3 530	(13 981)
Expenses included above:				
Provision for impairment of available-for-sale investments	19 186	169	4 207	23 562
Recognised retirement benefits for previous years	7 887	–	–	7 887
Provisions for bad and doubtful debts	65 088	14 803	251	80 142
Profit before the deduction of the above expenses and tax	56 329	33 293	7 988	97 610
Assets	4 893 204	2 590 772	935 973	8 419 949
Inter-segment assets				(294 021)
Total assets				8 125 928
Capital expenditure	15 297	8 383	541	24 221

Notes to the Financial Statements

2. SEGMENTAL ANALYSIS (continued)

Geographical areas (continued)

	Cyprus C€000	Greece C€000	Other countries C€000	Total C€000
2001				
Turnover	423 867	129 558	55 855	609 280
Inter-segment turnover, mainly interest	(13 826)	(3 624)	(2 288)	(19 738)
Turnover with external customers	410 041	125 934	53 567	589 542
Profit before tax - as per the Income Statement	35 548	26 113	4 778	66 439
Expenses/(gains) included above:				
Provision for impairment of available-for-sale investments	–	850	–	850
Profit on disposal of investment in jointly controlled entity	–	(8 833)	–	(8 833)
Provisions for bad and doubtful debts	25 651	6 810	616	33 077
Profit before above expenses/(gains) and tax	61 199	24 940	5 394	91 533
Assets	4 972 372	2 158 219	936 670	8 067 261
Inter-segment assets				(386 395)
Total assets				7 680 866
Capital expenditure	14 419	13 624	2 179	30 222

The analyses by geographical area are generally based on the location of the office recording the transaction. Even though the activities of some of the Group companies are interdependent, the analyses by area of activity and geographical area are presented without adjustments for the cost of the net investment, the allocation of the benefit of earnings on the Group capital and for Group head office expenses, as such adjustments would necessarily be subjective.

3. INTEREST INCOME

	The Group		The Company	
	2002 C€000	2001 C€000	2002 C€000	2001 C€000
Loans and advances to customers	335 405	328 366	292 127	282 024
Placements with banks	42 685	54 901	43 050	53 904
Treasury bills	10 811	13 867	10 783	13 830
Debt securities	58 933	42 395	53 137	35 545
	447 834	439 529	399 097	385 303

4. INTEREST EXPENSE

	The Group		The Company	
	2002 €000	2001 €000	2002 €000	2001 €000
Customer deposits	255 771	269 123	239 634	249 111
Amounts due to banks	7 277	3 978	8 044	3 766
Subordinated loan stock	9 258	6 687	9 258	6 687
	272 306	279 788	256 936	259 564

5. (LOSSES)/GAINS ON SALE AND REVALUATION OF FINANCIAL INSTRUMENTS

	The Group		The Company	
	2002 €000	2001 €000	2002 €000	2001 €000
Trading (losses)/gains:				
Equity shares	(3 494)	(4 194)	–	–
Debt securities	271	3 953	338	4 019
Derivatives	1 704	–	1 704	–
Gains on sale of available-for-sale investments	103	662	41	425
Net fair value gains from financial instruments designated as fair value hedges	794	–	794	–
	(622)	421	2 877	4 444

6. INCOME FROM INSURANCE BUSINESS

	The Group	
	2002 €000	2001 €000
Life assurance business	8 070	10 435
General insurance business	5 374	5 025
	13 444	15 460

Income from insurance business comprises the gross insurance premiums less reinsurance premiums, net claims and agents commissions, and the increase/decrease in insurance business funds and the value of life assurance policies in force.

7. OTHER INCOME

	The Group		The Company	
	2002 €000	2001 €000	2002 €000	2001 €000
Dividend income from equity shares	496	1 265	401	925
Profit on disposal of property held for sale	2 637	1 931	339	212
Rental income from investment property	108	–	151	–
Fair value adjustment of investment property	472	–	669	–
Other income	1 175	1 825	336	719
	4 888	5 021	1 896	1 856

Notes to the Financial Statements

8. STAFF COSTS

	The Group		The Company	
	2002 C€000	2001 C€000	2002 C€000	2001 C€000
Salaries and employer's contributions	95 458	87 471	75 866	68 372
Retirement benefit costs	22 200	13 739	19 282	10 668
	117 658	101 210	95 148	79 040

The number of persons employed by the Group as at 31 December 2002 was 5 518 (31 December 2001: 5 312) and by the Company 4 597 (31 December 2001: 4 372).

Retirement benefit costs

	The Group		The Company	
	2002 C€000	2001 C€000	2002 C€000	2001 C€000
Plans:				
Defined benefit	21 822	10 929	19 282	8 746
Defined contribution	322	175	–	–
Early retirement	56	2 635	–	1 922
	22 200	13 739	19 282	10 668

The Group has established several retirement benefit plans covering substantially all of its employees. The plans are funded and their assets are held independently of the Group's assets in separate Funds.

The main retirement scheme is a defined benefit plan for the permanent employees of the Group in Cyprus, representing 59% of total Group staff. The plan provides for lump sum payments on retirement, or earlier death, calculated on the basis of the length of service and the average salary in the period of 30-36 months before retirement. A small number of staff has the option to receive part or the whole of their entitlement by way of a pension for life.

The net present value of the obligations under the scheme is estimated annually, using the projected unit credit actuarial valuation method, by independent actuaries. The principal actuarial assumptions used at 31 December 2002 and 2001 were the following:

	2002 %	2001 %
Discount rate	6,5	6,5
Expected rate of return on plan assets	6,5	6,5
Future salary increases	7,5	7,5

The terms of the retirement plans of employees in Greece, the United Kingdom and other countries and the respective actuarial assumptions, reflect the economic conditions prevailing in these countries.

The results of the actuarial valuations for all of the Group's defined benefit plans are as shown below:

	2002 C€000	2001 C€000
Present value of obligations	187 960	159 858
Fair value of plan assets	(97 968)	(95 552)
Unrecognised actuarial losses	89 992	64 306

8. STAFF COSTS *(continued)*

The plan assets include securities issued by Bank of Cyprus Ltd as follows:

	Fair value	
	2002 €000	2001 €000
Ordinary shares	40 574	51 801
Share warrants	375	1 047
Loan stock	395	418
	41 344	53 266

The amounts recognised in the Consolidated Income Statement for defined benefit plans are as follows:

	2002 €000	2001 €000
Current service cost	9 296	8 370
Interest cost	9 179	5 127
Expected return on plan assets	(6 678)	(4 133)
Actuarial deficit	2 138	1 565
Recognised retirement benefits for previous years	7 887	–
	21 822	10 929
Actual return on plan assets (negative)	(16 844)	(32 097)

The recognised retirement benefits for previous years relate to the retrospective cost of additional benefits that arose as a result of the latest collective agreement of the Cyprus Bankers' Employers' Association with the Cyprus Union of Bank Employees. This is a non-recurring expense.

The cumulative actuarial deficit will be recognised in the Income Statement over the remaining working lives of the employees participating in the relevant plans.

The cumulative unrecognised actuarial losses resulted mainly from the changes in the discount rate and the negative return on the assets of the defined benefit plans.

Notes to the Financial Statements

9. PROFIT ON DISPOSAL OF INVESTMENT IN JOINTLY CONTROLLED ENTITY

On 21 December 2001 the Group disposed of its 50% shareholding in ABC Factors SA of Greece to the Alpha Bank Group. The company provides factoring services in Greece.

The profit after tax of the jointly controlled entity for the year 2001 which is included in the Consolidated Income Statement was C£675 thousand (C£758 thousand for the year 2000).

The details of the assets and liabilities disposed and the disposal consideration are as follows:

	C£000
Cash and cash equivalents	6 476
Loans and advances to customers	81 509
Other assets	412
Amounts due to banks	(77 708)
Customer deposits	(1 571)
Other liabilities	(1 162)
Net assets	7 956
Exchange difference arising on consolidation	77
	8 033
Proceeds from sale of investment in jointly controlled entity	16 866
Profit on disposal of jointly controlled entity per the Consolidated Income Statement	8 833
Transfer from revaluation reserve to the Income Statement of the Holding Company	3 133
Profit on disposal of jointly controlled entity per the Income Statement of the Holding Company	11 966

The net cash inflow on disposal is:

Proceeds from disposal	16 866
Cash and cash equivalents of entity disposed of	(6 476)
Net cash inflow on disposal of investment in jointly controlled entity	10 390

10. (LOSS)/PROFIT BEFORE TAX

	The Group		The Company	
	2002 C€000	2001 C€000	2002 C€000	2001 C€000
(Loss)/profit before tax is stated after crediting/(charging):				
Rental income from finance leases	346	591	–	–
Fair value adjustment on investment property	472	–	669	–
Profit on disposal of property and equipment and write offs of intangible assets	124	144	2	81
Interest on loan stock	(9 258)	(6 687)	(9 258)	(6 687)
Operating lease rentals for land and buildings	(5 482)	(4 717)	(5 136)	(4 222)
Depreciation of property and equipment	(12 495)	(10 799)	(9 824)	(8 127)
Amortisation of software and licence fees	(4 799)	(4 067)	(3 827)	(3 010)
Amortisation of goodwill arising on consolidation of subsidiary company	(117)	(117)	–	–
Auditors' remuneration	(396)	(361)	(144)	(127)
Directors' emoluments:				
<i>Executives</i>				
Fees	(66)	(66)	(32)	(32)
Emoluments in executive capacity, including contributions to retirement schemes	(458)	(537)	(458)	(537)
	(524)	(603)	(490)	(569)
<i>Non Executives</i>				
Fees	(129)	(139)	(103)	(113)
Total emoluments	(653)	(742)	(593)	(682)

During 2002 three executive directors earned emoluments, including contributions to retirement schemes in the range of C€150 thousand to C€200 thousand each.

Notes to the Financial Statements

II. TAX

	The Group		The Company	
	2002 C€000	2001 C€000	2002 C€000	2001 C€000
On profit for the year:				
Cyprus corporation tax	2 615	8 209	17	4 912
Cyprus defence contribution	1 027	1 339	12	823
Overseas taxation	7 753	8 172	5 156	5 850
Deferred tax	(6 130)	1 112	(4 945)	1 300
Tax for prior years	2 152	1 090	2 203	11
Tax expense	7 417	19 922	2 443	12 896
Reconciliation between tax expense for the year and tax rates:				
(Loss)/profit before tax	(13 981)	66 439	1 095	65 462
Tax at the normal tax rates in Cyprus	4 150	18 592	2 695	18 323
Difference between overseas tax rates and Cyprus tax rates	2 493	1 977	1 090	1 498
Effect of the decrease of Cyprus tax rates as of 2003	(3 451)	–	(2 798)	–
Write off of withholding tax on dividends received	227	–	17	–
Tax effect of:				
Expenses not deductible for tax purposes	2 460	1 480	1 335	160
Income not subject to tax	(614)	(3 217)	(2 099)	(7 096)
	5 265	18 832	240	12 885
Tax for prior years	2 152	1 090	2 203	11
Tax expense	7 417	19 922	2 443	12 896

The Cyprus corporation tax rates are 20%-25% on profits and 10%-15% on utilised losses. Additionally, defence contribution is paid at 3%-10% (2001: 3%-4%).

The decrease in deferred tax is mainly the result of the decrease in corporation tax rates from 20%-25% in 2002 and 2001, to 10%-15% as of 1 January 2003.

The amount of tax losses is C€29 326 thousand and will be utilised against future taxable profits.

An additional tax charge of about C€3,8 million will arise in the event of distribution of the whole of the undistributed profit of overseas branches.

12. (LOSS)/EARNINGS PER SHARE

	2002	2001
(Loss)/earnings per share		
(Loss)/profit after tax (C£ thousand)	(21 398)	46 517
Weighted average number of shares in issue during the year (thousand)	435 982	432 776
(Loss)/earnings per share (cents)	(4,9)	10,7
Fully diluted (loss)/earnings per share		
Fully diluted (loss)/earnings, adjusted for the conversion of convertible loan stock (C£ thousand)	(21 398)	46 729
Weighted average number of shares, adjusted for the conversion of convertible loan stock and the exercise of share warrants (thousand)	435 982	451 708
Fully diluted (loss)/earnings per share (cents)	(4,9)	10,3

The conversion of convertible loan stock and the exercise of share warrants have been ignored in the calculation of the fully diluted loss per share for 2002 as the shares thus arising, would result in a decrease of the loss per share for the year.

The weighted average number of shares for 2001 has been adjusted to reflect the bonus element of the issue of shares under the Dividend Reinvestment Plan.

13. CASH AND BALANCES WITH CENTRAL BANKS

Deposits with central banks include the obligatory deposits for liquidity purposes, which amount C£254 120 thousand (2001: C£318 760 thousand) for the Group and C£253 980 thousand (2001: C£318 541 thousand) for the Company.

14. TREASURY BILLS

	The Group		The Company	
	2002 C£000	2001 C£000	2002 C£000	2001 C£000
Treasury bills	222 773	243 411	222 306	242 787

The bills are short term in maturity and include obligatory placements with central banks for liquidity purposes of C£116 663 thousand (2001: C£155 553 thousand) for the Group and C£116 196 thousand (2001: C£154 929 thousand) for the Company.

15. PLACEMENTS WITH BANKS

	The Group		The Company	
	2002 C£000	2001 C£000	2002 C£000	2001 C£000
<i>Repayable</i>				
On demand	187 312	85 095	150 642	73 825
Within three months	662 239	1 040 223	581 198	955 450
Between three months and one year	74 140	80 586	70 950	75 006
Between one and five years	—	1 069	—	—
	923 691	1 206 973	802 790	1 104 281

Notes to the Financial Statements

16. LOANS AND ADVANCES TO CUSTOMERS

	The Group		The Company	
	2002 €000	2001 €000	2002 €000	2001 €000
Loans, overdrafts and other advances	4 645 723	4 079 663	4 080 528	3 581 770
Hire purchase and finance lease debtors	397 922	334 636	—	—
Gross loans and advances	5 043 645	4 414 299	4 080 528	3 581 770
Provisions for bad and doubtful debts	(276 903)	(189 505)	(240 109)	(157 591)
	4 766 742	4 224 794	3 840 419	3 424 179
<i>Repayable</i>				
On demand	1 617 048	1 360 337	1 285 224	1 217 108
Within three months	366 458	408 148	272 919	331 914
Between three months and one year	812 511	678 053	701 283	588 709
Between one and five years	1 597 848	1 380 183	1 353 872	1 055 408
After five years	649 780	587 578	467 230	388 631
	5 043 645	4 414 299	4 080 528	3 581 770
<i>By economic activity</i>				
Trade	926 776	818 060	849 436	760 221
Manufacturing	365 871	287 482	322 742	252 544
Tourism	461 026	442 377	359 353	333 162
Property and construction	628 239	485 732	391 674	291 515
Personal, home loans and professional	2 313 473	2 005 236	1 965 843	1 706 801
Other sectors	348 260	375 412	191 480	237 527
	5 043 645	4 414 299	4 080 528	3 581 770
<i>By geographical area</i>				
Cyprus	2 851 013	2 631 710	2 585 591	2 364 541
Greece	1 641 084	1 201 887	1 417 670	1 060 979
United Kingdom	462 114	539 324	77 267	156 250
Australia	89 434	41 378	—	—
	5 043 645	4 414 299	4 080 528	3 581 770

16. LOANS AND ADVANCES TO CUSTOMERS (continued)**Provisions for bad and doubtful debts**

	Specific C€000	Interest in suspense C€000	General C€000	Total C€000
The Group				
2002				
At 1 January	104 521	72 676	12 308	189 505
Exchange adjustments	(168)	(102)	(167)	(437)
Applied in writing off advances	(11 683)	(910)	–	(12 593)
Suspended interest for the year	–	20 286	–	20 286
Charge for the year	76 526	(2 250)	5 866	80 142
At 31 December	169 196	89 700	18 007	276 903
2001				
At 1 January	82 206	56 882	10 433	149 521
Exchange adjustments	93	50	72	215
Applied in writing off advances	(8 281)	(654)	–	(8 935)
Disposal of investment in jointly controlled entity	–	–	(1 179)	(1 179)
Suspended interest for the year	–	16 806	–	16 806
Charge for the year	30 503	(408)	2 982	33 077
At 31 December	104 521	72 676	12 308	189 505
The Company				
2002				
At 1 January	80 209	68 344	9 038	157 591
Exchange adjustments	18	7	6	31
Applied in writing off advances	(7 288)	(687)	–	(7 975)
Suspended interest for the year	–	19 159	–	19 159
Charge for the year	67 588	(1 748)	5 463	71 303
At 31 December	140 527	85 075	14 507	240 109
2001				
At 1 January	60 409	53 022	7 040	120 471
Exchange adjustments	33	10	20	63
Applied in writing off advances	(5 697)	(129)	–	(5 826)
Suspended interest for the year	–	15 441	–	15 441
Charge for the year	25 464	–	1 978	27 442
At 31 December	80 209	68 344	9 038	157 591

The loans and advances for which specific provision is made and interest is suspended amounted to C€471 291 thousand (2001: C€300 893 thousand) for the Group and C€418 158 thousand (2001: C€257 386 thousand) for the Company.

Notes to the Financial Statements

17. DEBT SECURITIES

The Group	Held-for-trading C€000	Available-for-sale C€000	Held-to-maturity C€000	Total C€000
2002				
Cyprus government	60 462	125 408	–	185 870
Other governments	–	274 611	–	274 611
Local authorities	1 450	179	–	1 629
Banks and other organisations	191 050	394 964	7 338	593 352
Cyprus public companies	376	479	–	855
	253 338	795 641	7 338	1 056 317
<i>Repayable</i>				
Within one year	26 228	189 868	2 648	218 744
Between two and five years	220 476	315 339	4 690	540 505
After five years	6 634	290 434	–	297 068
	253 338	795 641	7 338	1 056 317
Listed on the Cyprus Stock Exchange	60 838	118 210	–	179 048
Listed on European stock exchanges	191 050	677 230	7 338	875 618
Unlisted-certificates of deposit, bank and local authorities bonds	1 450	201	–	1 651
	253 338	795 641	7 338	1 056 317
2001				
Cyprus government	70 910	179 058	–	249 968
Other governments	–	266 456	–	266 456
Local authorities	1 354	179	–	1 533
Banks and other organisations	415 970	122 427	10 274	548 671
Cyprus public companies	574	480	–	1 054
	488 808	568 600	10 274	1 067 682
<i>Repayable</i>				
Within one year	96 220	129 522	7 406	233 148
Between two and five years	375 286	183 469	2 868	561 623
After five years	17 302	255 609	–	272 911
	488 808	568 600	10 274	1 067 682
Listed on the Cyprus Stock Exchange	71 484	171 746	–	243 230
Listed on European stock exchanges	415 970	396 653	10 274	822 897
Unlisted-certificates of deposit, bank and local authorities bonds	1 354	201	–	1 555
	488 808	568 600	10 274	1 067 682

The movement for the year 2002 in available-for-sale and held-to-maturity investments in debt securities is summarised as follows:

	Available-for-sale C€000	Held-to-maturity C€000
At 1 January 2002	568 600	10 274
Exchange adjustments	(38 516)	(941)
Additions	476 137	5 136
Disposals and redemptions	(219 641)	(7 066)
Gain from change in fair value	12 248	–
Amortisation of premiums/discounts	(3 187)	(65)
At 31 December 2002	795 641	7 338

17. DEBT SECURITIES (continued)**The Company**

	Held- for-trading C€000	Available- for-sale C€000	Held-to- maturity C€000	Total C€000
2002				
Cyprus government	60 462	122 902	–	183 364
Other governments	–	273 861	–	273 861
Banks and other organisations	191 050	265 667	7 338	464 055
	251 512	662 430	7 338	921 280
<i>Repayable</i>				
Within one year	25 414	83 457	2 648	111 519
Between two and five years	220 476	290 284	4 690	515 450
After five years	5 622	288 689	–	294 311
	251 512	662 430	7 338	921 280
Listed on the Cyprus Stock Exchange	60 462	115 120	–	175 582
Listed on European stock exchanges	191 050	547 310	7 338	745 698
	251 512	662 430	7 338	921 280
2001				
Cyprus government	70 910	173 813	–	244 723
Other governments	–	265 628	–	265 628
Banks and other organisations	415 970	2 626	10 274	428 870
	486 880	442 067	10 274	939 221
<i>Repayable</i>				
Within one year	96 065	100 320	7 406	203 791
Between two and five years	375 085	88 019	2 868	465 972
After five years	15 730	253 728	–	269 458
	486 880	442 067	10 274	939 221
Listed on the Cyprus Stock Exchange	70 910	168 551	–	239 461
Listed on European stock exchanges	415 970	273 516	10 274	699 760
	486 880	442 067	10 274	939 221

The movement for the year 2002 in available-for-sale and held-to-maturity investments in debt securities is summarised as follows:

	Available- for-sale C€000	Held-to- maturity C€000
At 1 January 2002	442 067	10 274
Exchange adjustments	(28 805)	(941)
Additions	420 868	5 136
Disposals and redemptions	(181 278)	(7 066)
Gain from change in fair value	12 796	–
Amortisation of premiums/discounts	(3 218)	(65)
At 31 December 2002	662 430	7 338

Notes to the Financial Statements

18. EQUITY SHARES

The Group	Held-for-trading		Available-for-sale		Total	
	2002 C€000	2001 C€000	2002 C€000	2001 C€000	2002 C€000	2001 C€000
Listed on the Cyprus Stock Exchange	2 958	6 755	17 664	21 578	20 622	28 333
Listed on European stock exchanges	173	238	1 078	1 340	1 251	1 578
Unlisted	251	1 320	23 450	21 653	23 701	22 973
	3 382	8 313	42 192	44 571	45 574	52 884

The movement for the year 2002 in available-for-sale investments in equity shares is summarised as follows:

	Cost less impairment C€000	Revaluation C€000	Book value C€000
At 1 January 2002	58 727	(14 156)	44 571
Exchange adjustments	1	(389)	(388)
Additions	5 247	–	5 247
Disposals	(426)	18	(408)
Loss from change in fair value	–	(6 830)	(6 830)
Provision for impairment	(23 562)	23 562	–
At 31 December 2002	39 987	2 205	42 192

The Company

All equity shares of the Company are classified as available-for-sale.

	Available-for-sale	
	2002 C€000	2001 C€000
Listed on the Cyprus Stock Exchange	12 995	14 765
Listed on European stock exchanges	843	1 130
Unlisted	7 285	8 990
	21 123	24 885

The movement for the year 2002 in available-for-sale investments in equity shares is summarised as follows:

	Cost less impairment C€000	Revaluation C€000	Book value C€000
At 1 January 2002	30 850	(5 965)	24 885
Exchange adjustments	1	(1)	–
Additions	126	–	126
Loss from change in fair value	–	(3 888)	(3 888)
Provision for impairment	(10 888)	10 888	–
At 31 December 2002	20 089	1 034	21 123

19. INVESTMENTS IN GROUP COMPANIES**The Company**

	2002	2001
	€000	€000
Cost at the beginning of the year	125 429	99 484
Issue of shares by subsidiaries and jointly controlled entities	15 472	28 520
Acquisition of brokerage company Kyprou Securities SA (ex Victory Securities SA)	–	2 724
Disposal of investment in jointly controlled entity ABC Factors SA	–	(5 299)
Cost at the end of the year	140 901	125 429
Fair value adjustment reflecting the Company's share in the net assets of the Group companies	52 610	70 512
Disposal of jointly controlled entity - Company's share in the net assets of ABC Factors SA	–	(2 657)
Company's share of net assets in Group companies	193 511	193 284
Long term loans to subsidiary companies	17 660	14 611
	211 171	207 895

Issue of shares by subsidiaries and jointly controlled entities:

Bank of Cyprus (London) Ltd	–	7 468
Bank of Cyprus Australia Pty Ltd	1 020	3 236
Bank of Cyprus (Channel Islands) Ltd	7 470	–
Kyprou Leasing SA	1 443	3 539
ABC Factors SA	–	2 104
Kyprou Mutual Fund Management Company (Kyprou AEDAK)	697	–
Tefkros Investments (CI) Ltd	4 842	12 173
	15 472	28 520

Notes to the Financial Statements

19. INVESTMENTS IN GROUP COMPANIES (continued)

The Group companies and their activities are as follows:

Cyprus

Mortgage Bank of Cyprus Ltd	<i>Real estate and industrial development bank</i>
Bank of Cyprus Finance Corporation Ltd	<i>Hire purchase and leasing business</i>
Bank of Cyprus (Factors) Ltd	<i>Factoring services</i>
JCC Payment Systems Ltd	<i>Processing of credit card transactions</i>
The Cyprus Investment and Securities Corporation Ltd (CISCO)	<i>Investments and securities house</i>
General Insurance of Cyprus Ltd	<i>General insurance business</i>
EuroLife Ltd	<i>Life assurance business</i>
Kermia Ltd	<i>Property trading and development</i>
Kermia Properties & Investments Ltd	<i>Property development</i>
Kermia Hotels Ltd	<i>Hotel business</i>
BOC Ventures Ltd	<i>Management of venture capital investments</i>
Tefkros Investments Ltd	<i>Venture capital investments</i>
Bank of Cyprus Mutual Funds Ltd	<i>Sale of investment products</i>

Greece

Bank of Cyprus Ltd (branch)	<i>Commercial bank</i>
Kyprou Leasing SA	<i>Leasing business</i>
Kyprou Commercial SA	<i>Financing of motor vehicles and other consumer products</i>
Kyprou Securities SA	<i>Brokerage company</i>
Kyprou Mutual Fund Management Company (Kyprou AEDAK)	<i>Sale of investment products</i>
Kyprou Properties SA	<i>Property trading</i>
Kyprou Insurance Services Ltd	<i>General insurance brokers</i>
Kyprou Zois (branch)	<i>Life assurance business</i>
Kyprou Asfalistiki (branch)	<i>General insurance business</i>

United Kingdom

Bank of Cyprus (London) Ltd	<i>Commercial bank</i>
Bank of Cyprus Ltd (branch)	<i>Commercial bank</i>

United Kingdom Channel Islands

Bank of Cyprus (Channel Islands) Ltd	<i>Commercial bank</i>
Tefkros Investments (CI) Ltd	<i>Venture capital investments</i>

Australia

Bank of Cyprus Australia Pty Ltd	<i>Commercial bank</i>
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Ireland

BOC International Fund Management Ltd	<i>Management of mutual funds</i>
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All the above mentioned companies are wholly owned subsidiaries, except for JCC Payment Systems Ltd in which the Group holds 45% of the issued share capital of C£1 million. The company is accounted for as an interest in a jointly controlled entity.

The investment in ABC Factors SA which was disposed of on 21 December 2001, amounted to 50% of its total issued share capital of C£6 933 thousand. The company was accounted for as a jointly controlled entity up to the date of disposal.

19. INVESTMENTS IN GROUP COMPANIES (continued)

The Group's aggregate share in key financial statement items of the jointly controlled entities (including ABC Factors SA up to the date of disposal) is as follows:

	2002 C€000	2001 C€000
Turnover	4 524	8 197
Profit before tax	1 931	2 864
Net assets	4 949	11 476
Total assets	5 991	92 772

20. PROPERTY AND EQUIPMENT**The Group**

	Property 2002 C€000	Equipment 2002 C€000	Total 2002 C€000	Total 2001 C€000
<i>Cost or valuation</i>				
At 1 January	126 776	65 282	192 058	170 924
Exchange adjustments	(494)	(769)	(1 263)	469
Additions	8 708	8 385	17 093	24 602
Acquisition of subsidiary company	–	–	–	264
Transfer to investment property	(293)	–	(293)	–
Disposals and write offs	(220)	(1 271)	(1 491)	(3 956)
Disposal of investment in jointly controlled entity	–	–	–	(245)
At 31 December	134 477	71 627	206 104	192 058
<i>Depreciation</i>				
At 1 January	14 323	39 307	53 630	43 972
Exchange adjustments	(71)	(505)	(576)	186
Acquisition of subsidiary company	–	–	–	57
Transfer to investment property	(10)	–	(10)	–
Disposals and write offs	(7)	(1 062)	(1 069)	(1 189)
Disposal of investment in jointly controlled entity	–	–	–	(195)
Charge for the year	4 891	7 604	12 495	10 799
At 31 December	19 126	45 344	64 470	53 630
<i>Depreciation</i>				
At 31 December	115 351	26 283	141 634	138 428

The net book value of the Group's property comprises of:

	2002 C€000	2001 C€000
Freeholds	99 569	97 840
Leaseholds up to 50 years unexpired	15 782	14 613
	115 351	112 453

Notes to the Financial Statements

20. PROPERTY AND EQUIPMENT (continued)

Property includes land as well as buildings under construction amounting to C£30 764 thousand (2001: C£28 955 thousand) for which no depreciation is charged.

The net book value of freehold land and buildings, on a cost less accumulated depreciation basis, would be C£75 270 thousand (2001: C£73 286 thousand).

The cumulative surplus on revaluation of C£24 718 thousand (2001: C£24 866 thousand) is included in the revaluation reserve.

There are no fixed charges in favour of third parties on the Group's tangible fixed assets as at 31 December 2002.

The Company

	Property 2002 C£000	Equipment 2002 C£000	Total 2002 C£000	Total 2001 C£000
<i>Cost or valuation</i>				
At 1 January	98 810	45 320	144 130	126 262
Exchange adjustments	39	12	51	87
Additions	8 630	7 548	16 178	19 905
Transfer to investment property	(1 617)	–	(1 617)	–
Disposals and write offs	(54)	(1 018)	(1 072)	(2 124)
At 31 December	105 808	51 862	157 670	144 130
<i>Depreciation</i>				
At 1 January	12 740	27 697	40 437	32 685
Exchange adjustments	4	6	10	17
Transfer to investment property	(142)	–	(142)	–
Disposals and write offs	–	(912)	(912)	(392)
Charge for the year	4 300	5 524	9 824	8 127
At 31 December	16 902	32 315	49 217	40 437
<i>Net book value</i>				
At 31 December	88 906	19 547	108 453	103 693

The net book value of the Company's property comprises of:

	2002 C£000	2001 C£000
Freeholds	73 877	72 397
Leaseholds up to 50 years unexpired	15 029	13 673
	88 906	86 070

Property includes land as well as buildings under construction amounting to C£21 520 thousand (2001: C£19 702 thousand) for which no depreciation is charged.

The net book value of freehold land and buildings, on a cost less accumulated depreciation basis, would be C£59 288 thousand (2001: C£57 586 thousand).

The cumulative surplus on revaluation of C£14 957 thousand (2001: C£14 981 thousand) is included in the revaluation reserve.

21. INTANGIBLE ASSETS**The Group**

	Computer software	Licence fees	Goodwill on consolidation of subsidiary company	Total 2002 C€000	Total 2001 C€000
	2002 C€000	2002 C€000	2002 C€000		
<i>Cost</i>					
At 1 January	28 603	—	1 173	29 776	23 124
Acquisition of subsidiary company	—	—	—	—	97
Exchange adjustments	(160)	—	—	(160)	25
Additions	7 128	3 607	—	10 735	6 793
Write offs	(204)	—	—	(204)	(92)
Disposal of investment in jointly controlled entity	—	—	—	—	(171)
At 31 December	35 367	3 607	1 173	40 147	29 776
<i>Amortisation</i>					
At 1 January	18 157	—	117	18 274	14 181
Acquisition of subsidiary company	—	—	—	—	39
Exchange adjustments	(88)	—	—	(88)	16
Write offs	(80)	—	—	(80)	—
Disposal of investment in jointly controlled entity	—	—	—	—	(146)
Charge for the year	4 709	90	117	4 916	4 184
At 31 December	22 698	90	234	23 022	18 274
<i>Net book value</i>					
At 31 December	12 669	3 517	939	17 125	11 502

The goodwill on consolidation of subsidiary company arose on the acquisition of Victory Securities SA, a brokerage company (Note 34). The goodwill is amortised systematically over its expected useful life which was estimated at 10 years.

The Company

	Computer software	Licence fees	Total 2002 C€000	Total 2001 C€000
	2002 C€000	2002 C€000		
<i>Cost</i>				
At 1 January	23 984	—	23 984	19 301
Exchange adjustments	5	—	5	5
Additions	6 745	3 607	10 352	4 682
Write offs	(11)	—	(11)	(4)
At 31 December	30 723	3 607	34 330	23 984
<i>Depreciation</i>				
At 1 January	15 727	—	15 727	12 714
Exchange adjustments	3	—	3	3
Write offs	(3)	—	(3)	—
Charge for the year	3 737	90	3 827	3 010
At 31 December	19 464	90	19 554	15 727
<i>Net book value</i>				
At 31 December	11 259	3 517	14 776	8 257

Notes to the Financial Statements

22. OTHER ASSETS

	The Group		The Company	
	2002 C£000	2001 C£000	2002 C£000	2001 C£000
Debtors	10 154	8 751	2 143	293
Property held for sale	11 985	16 390	4 214	6 240
Investment property	2 972	—	2 357	—
Value of life assurance policies in force	16 235	15 760	—	—
Taxes refundable	4 761	3 826	3 911	3 253
Deferred tax	1 224	811	453	—
Fair value of derivative financial instruments	18 549	14 774	15 688	11 317
Items in course of collection and other assets	43 781	59 561	30 861	50 552
	109 661	119 873	59 627	71 655

The movement of investment property is summarised as follows:

	The Group		The Company	
	2002 C£000	2001 C£000	2002 C£000	2001 C£000
At 1 January	—	—	—	—
Transfer from property held for sale	2 229	—	—	—
Transfer from property and equipment	283	—	1 475	—
Fair value adjustment on transfer to investment property	(12)	—	213	—
Fair value adjustment for the year	472	—	669	—
At 31 December	2 972	—	2 357	—

The deferred tax asset is attributable to the following items:

	The Group		The Company	
	2002 C£000	2001 C£000	2002 C£000	2001 C£000
Difference between wear and tear allowances and depreciation	(1 327)	(7)	(1 283)	—
Property revaluation	(2 202)	52	(1 983)	—
Investments revaluation	132	374	—	—
Other temporary differences	775	—	—	—
Unutilised tax losses carried forward	3 846	392	3 719	—
	1 224	811	453	—

23. PREPAYMENTS AND ACCRUED INCOME

	The Group		The Company	
	2002 C£000	2001 C£000	2002 C£000	2001 C£000
Accrued interest, fees and commissions	80 840	63 233	76 422	59 405
Prepaid expenses	14 937	4 206	13 753	3 572
	95 777	67 439	90 175	62 977

24. LIFE ASSURANCE BUSINESS**The Group**

The value placed on the life assurance business of the subsidiary company EuroLife Ltd comprises of:

	2002 C€000	2001 C€000
Net assets attributable to shareholders	12 065	9 431
Value of life assurance policies in force	16 235	15 760
	28 300	25 191

Life assurance business net assets attributable to policyholders comprise of:

Investments:		
Equity shares	52 972	69 733
Debt securities	55 335	39 850
Mortgages and loans	7 607	9 457
Bank deposits	59 214	64 844
	175 128	183 884
Other assets less liabilities	1 028	(532)
Life assurance business net assets attributable to policyholders	176 156	183 352

Investments valued at C€163 199 thousand (2001: C€169 762 thousand) are held in trust for the benefit of the policyholders.

In determining the value of policies in force, assumptions are made relating to gross investment yields, future mortality, persistence and level of expenses. The profits attributable to shareholders which are expected to arise in the future are discounted at 10,5% per annum (2001: 10,5% per annum).

25. AMOUNTS DUE TO BANKS

	The Group		The Company	
	2002 C€000	2001 C€000	2002 C€000	2001 C€000
<i>Repayable</i>				
On demand	21 506	29 127	20 926	26 886
Within three months	144 427	182 471	137 194	181 402
Between three months and one year	39 963	119 018	39 963	119 018
Between one and five years	–	21	–	21
	205 896	330 637	198 083	327 327

Notes to the Financial Statements

26. CUSTOMER DEPOSITS

	The Group		The Company	
	2002 €€000	2001 €€000	2002 €€000	2001 €€000
<i>Repayable</i>				
On demand	1 358 344	1 250 580	1 276 006	1 172 868
Within three months	2 844 712	2 851 926	2 496 755	2 549 147
Between three months and one year	2 071 651	1 784 044	2 000 174	1 730 258
Between one and five years	537 079	383 784	488 105	310 185
After five years	24 482	6 850	24 482	6 850
	6 836 268	6 277 184	6 285 522	5 769 308
<i>By category</i>				
Demand deposits	771 634	609 346	567 603	447 342
Savings deposits	513 331	316 294	502 680	308 009
Time deposits	5 551 303	5 351 544	5 215 239	5 013 957
	6 836 268	6 277 184	6 285 522	5 769 308
<i>By geographical area</i>				
Cyprus	4 375 631	4 266 012	4 374 099	4 264 008
Greece	1 878 137	1 482 930	1 878 137	1 482 930
United Kingdom	524 596	496 904	33 286	22 370
Australia	57 904	31 338	—	—
	6 836 268	6 277 184	6 285 522	5 769 308

27. DEBT SECURITIES IN ISSUE

The Group	2002 €€000	2001 €€000
7,25% Guaranteed Debenture Stock Kermia Ltd 1999/2002	—	3 200
Interest-free loan from the European Development Bank	288	550
	288	3 750
<i>Repayable</i>		
Between one and five years	—	3 200
After five years	288	550
	288	3 750

28. OTHER LIABILITIES

	The Group		The Company	
	2002 €€000	2001 €€000	2002 €€000	2001 €€000
General insurance business funds	4 477	3 986	—	—
Taxes payable	5 359	3 798	2 368	1 888
Deferred tax	6 397	11 544	4 762	8 287
Fair value of derivative financial instruments	43 037	16 252	40 198	13 657
Items in course of settlement and other liabilities	59 926	47 385	32 962	27 298
	119 196	82 965	80 290	51 130

28. OTHER LIABILITIES (continued)

The deferred tax liability is attributable to the following items:

	The Group		The Company	
	2002 €000	2001 €000	2002 €000	2001 €000
Difference between wear and tear allowances and depreciation	112	3 420	–	2 777
Property revaluation	1 487	4 942	325	1 858
Investments revaluation	3 537	1 793	3 846	3 039
Other temporary differences	1 261	1 389	591	613
	6 397	11 544	4 762	8 287

29. ACCRUALS AND DEFERRED INCOME

	The Group		The Company	
	2002 €000	2001 €000	2002 €000	2001 €000
Accrued interest, fees and commissions	87 987	69 104	79 341	58 058
Other accrued expenses	4 247	4 459	597	314
Deferred income	3 334	1 118	–	–
	95 568	74 681	79 938	58 372

30. SUBORDINATED LOAN STOCK

The Group and the Company	2002 €000	2001 €000
Step-up Floating rate Subordinated Bonds in Euro 2006/2011	157 620	157 874
6,75% Convertible Loan Stock, 2003	3 916	4 368
Floating rate Loan Stock, 2003/2008	25 000	25 000
	186 536	187 242
<i>Repayable</i>		
Within one year	3 916	–
Between two and five years	–	4 368
After five years	182 620	182 874
	186 536	187 242

The loan stocks were issued by Bank of Cyprus Ltd and rank behind the claims of depositors and other creditors of the Bank. They are considered second tier capital in determining the capital base of the Bank.

The Step-up Floating rate subordinated bonds 2006/2011 were issued in Euro (totalling €275 million). The interest rate is 1,20% above the offered rate for three month Euro deposits (Euribor) and will increase to 2,40% after 20 June 2006. The Company has the option to redeem the bonds in whole on or at any date after 20 June 2006.

The 6,75% Convertible Loan Stock, 2003 may be converted into shares of the Company at the option of its holders at €1,25 per share. The conversion price is adjusted every time there is a new issue of shares. During the year, loan stock of nominal value €452 thousand was converted into 368 thousand shares of nominal value 50 cents each. The fair value of the conversion option of this loan stock at the date of its issue was estimated at about €2,5 million of which an amount of €0,2 million relates to the loan stock outstanding as at 31 December 2002.

The interest on the Loan Stock, 2003/2008 is payable every six months and is 0,75% higher than the interest rate offered for fixed deposits of one year maturity.

Notes to the Financial Statements

31. SHARE CAPITAL

The Group and the Company

	2002 C£000	2001 C£000
<i>Authorised</i>		
Shares of 50 cents each	300 000	300 000
<i>Issued and fully paid</i>		
At 1 January	216 181	216 129
Conversion of convertible loan stock	184	52
Dividend reinvestment	2 359	–
At 31 December	218 724	216 181

As a result of the conversion of Convertible Loan Stock due 2003, 368 thousand new shares were issued during the year.

During 2002, the Company introduced a Dividend Reinvestment Plan. Under this Plan, all shareholders have the opportunity to reinvest part or all of their dividend, in additional Bank of Cyprus Ltd shares at a discount of 7,5% on the average current market price of the shares. The Company reserves the right to change the percentage of discount offered under the Plan, or even abolish it altogether.

The price of shares acquired under the Dividend Reinvestment Plan for the final dividend for year 2001 has been set at C£1,51 per share.

As a result of the reinvestment of the final dividend for 2001, the Company's share capital and share premium reserve, increased by C£2 359 thousand (4 718 961 shares) and by C£4 766 thousand, respectively.

The Centenary Share Warrants which have not yet been exercised as at 31 December 2002 were 33 664 thousand. The warrants may be exercised in October 2003. The exercise price of the Warrants as at 31 December 2002 was C£1,25 per Warrant.

The Company has granted share options to all Group personnel who were in service at 31 December 2000. The total number of share options granted was 3 216 700. Each share option issued gives the holder the right to buy one share of the Company at the price of C£3,50 per share. Up to 50% of the share options may be exercised in the period from 31 January 2003 to 31 December 2003. The remaining options may be exercised in the period from 31 January 2004 to 31 December 2007.

32. DIVIDENDS PAID

	2002 C£000	2001 C£000
Final dividend for 2001, at 16% (8 cents per share)	34 612	–
Interim dividend for 2001, at 10% (5 cents per share)	–	21 617
Final dividend for 2000, at 16% (8 cents per share)	–	34 585
Total dividends paid	34 612	56 202

The final dividend for 2001, totalling C£34 612 thousand (8 cents per share), was approved at the Annual General Meeting held on 24 April 2002 and was paid on 20 May 2002.

The Board of Directors does not propose the payment of dividend for the year 2002.

33. CONTINGENT LIABILITIES AND COMMITMENTS

Financial instruments

In common with other banking companies, the Group conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. Contingent liabilities and commitments are not reflected in the balance sheet.

The following table summarises the nominal principal amount of contingent liabilities and commitments as at 31 December:

	The Group		The Company	
	2002 C£000	2001 C£000	2002 C£000	2001 C£000
<i>Contingent liabilities</i>				
Acceptances and endorsements	50 131	50 110	48 999	46 891
Guarantees and performance bonds	589 950	520 111	596 050	538 167
	640 081	570 221	645 049	585 058
<i>Commitments</i>				
Documentary credits	29 352	35 948	29 352	35 948
Undrawn formal standby facilities, credit lines and other commitments to lend	946 973	792 348	893 404	738 778
	976 325	828 296	922 756	774 726

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer in the event that payment is not honoured by the customer. Most acceptances are expected to be presented for payment, but reimbursement by the customer is normally immediate.

Endorsements are residual liabilities in respect of bills of exchange, which have been discounted by a bank and subsequently rediscounted.

Guarantees and performance bonds are generally written by a bank to support the performance of a customer to third parties. As the bank will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Documentary credits commit the bank to make payments to third parties on production of documents and provided that the terms of the documentary credit are satisfied. The repayment by the customer is usually immediate.

Commitments to lend are agreements to lend to a customer in the future subject to certain conditions. Such commitments are made for a fixed period and are cancellable by the bank subject to notice requirements. Most commitments expire without being fully drawn upon and hence the cash requirements of such commitments are considerably less than the commitment limits that are reported.

Capital Commitments

Commitments for contracted capital expenditure amount to C£9 689 thousand (2001: C£13 808 thousand) for the Group and C£9 689 thousand (2001: C£13 655 thousand) for the Company.

Litigation

There is no pending litigation, claims or assessments against the Group the outcome of which would have a material effect on the Group's financial position and operations.

Notes to the Financial Statements

34. DERIVATIVE FINANCIAL INSTRUMENTS

The use of derivatives and their sale to customers as risk management products is an integral part of the Group's activities.

These instruments are also used to manage the Group's own exposure to fluctuations in interest rates, exchange rates and equity price indices as part of its asset and liability management activities.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency usually on a specified future date at an agreed rate.

A currency swap involves the exchange of two currencies at the current market rate and the commitment to exchange them back at a specified rate on the maturity of the swap.

An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract.

An equity linked swap is an agreement between two parties to exchange the return on an equity index for a stream of cash flows based on a short-term interest rate index.

An interest rate, currency and equity option provides the buyer with the right, but not the obligation to either purchase or sell a specified stock or stock index at a specified price or level on or before a specified date.

The credit exposure of derivative instruments represents the cost to replace contracts with a positive value. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for lending decisions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks.

The fair value of the derivative instruments becomes positive (assets) or negative (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity price indices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Changes in the fair value of derivatives designated as fair value hedges are recognised in the Income Statement.

Changes in the fair value of the effective portion of derivatives designated as cash flow hedges are recognised directly in equity (Consolidated Statement of Charges in Equity) and the ineffective portion is recognised in the Income Statement.

Fair value hedges

The Group hedges the interest rate risk resulting from any potential change in the fair value of fixed rate bonds classified as available-for-sale using interest rate swaps of nominal amount C£107 877 thousand (2001: nil). The net negative fair value of these derivative instruments at 31 December 2002 was C£6 353 thousand and the positive fair value of the hedged items was C£7 147 thousand.

34. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**Cash flow hedges**

The Group uses interest rate swaps of nominal amount C£157 620 thousand (2001: nil) to hedge the future cash flows from the Step-Up Floating rate subordinated Bonds in Euro, 2006/2011. The net negative fair value of these derivative instruments at 31 December 2002 was C£6 904 thousand (2001: nil).

Hedges of net investments in foreign entities

The Group hedges the currency risk arising on the retranslation into Cyprus pounds of the net assets of the overseas subsidiaries and branches. Liabilities amounting to C£170 511 thousand (2001: C£147 360 thousand) have been designated as hedges and gave rise to a gain of C£5 013 thousand (2001: loss of C£1 375 thousand) which was taken to the Exchange Adjustments Reserve, against the profit/loss that arose on the retranslation of the net assets into Cyprus pounds.

The nominal amounts and fair values of derivative instruments respectively are summarised as follows:

At 31 December 2002

	The Group			The Company		
	Nominal amount C£000	Fair value		Nominal amount C£000	Fair value	
		Assets C£000	Liabilities C£000		Assets C£000	Liabilities C£000
<i>Derivatives not qualifying for hedge accounting</i>						
Forward foreign exchange rate contracts	177 407	3 538	3 285	157 388	3 366	2 996
Currency swaps	835 582	9 890	23 423	776 958	8 596	22 269
Interest rate swaps	527 107	3 359	1 310	389 252	2 345	295
Equity linked swaps	20 204	624	624	10 704	243	243
Equity options	17 166	1 138	1 138	17 166	1 138	1 138
	1 577 466	18 549	29 780	1 351 468	15 688	26 941
<i>Derivatives qualifying for hedge accounting</i>						
Fair value hedges:						
Interest rate swaps	107 877	–	6 353	107 877	–	6 353
Cash flow hedges:						
Interest rate swaps	157 620	–	6 904	157 620	–	6 904
	265 497	–	13 257	265 497	–	13 257
Total	1 842 963	18 549	43 037	1 616 965	15 688	40 198

Notes to the Financial Statements

34. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At 31 December 2001

	The Group			The Company		
	Nominal amount	Fair value		Nominal amount	Fair value	
	C€000	Assets C€000	Liabilities C€000	C€000	Assets C€000	Liabilities C€000
<i>Derivatives not qualifying for hedge accounting</i>						
Forward foreign exchange rate contracts	293 856	4 201	3 711	191 577	2 436	2 277
Currency swaps	786 205	5 107	1 544	680 017	4 364	797
Interest rate swaps	546 262	5 275	6 490	428 195	4 368	6 208
Equity linked swaps	44 019	188	991	32 569	147	859
Equity options	95 558	—	3 516	95 558	—	3 516
Interest rate options	22 637	3	—	18 816	2	—
Total	1 788 537	14 774	16 252	1 446 732	11 317	13 657

35. NET CASH FLOWS FROM OPERATING ACTIVITIES

	2002 €€000	2001 €€000
(Loss)/profit before tax	(13 981)	66 439
Adjustments for:		
Provisions for bad and doubtful debts	80 142	33 077
Depreciation of property and equipment	12 495	10 799
Amortisation of intangible assets	4 916	4 184
Amortisation of discounts and premiums	3 252	883
Increase in prepayments and accrued income	(28 338)	(10 138)
Decrease in the market value of trading securities	–	454
Increase in accruals and deferred income	20 887	22 654
Profit on disposal of tangible assets and write offs of intangible assets	(124)	(144)
Interest on debt securities	(58 933)	(42 395)
Dividend income from equity shares	(496)	(1 265)
Loss/(profit) on sale of investments in equity shares	10	(5)
Profit on sale of investments in debt securities	(113)	(657)
Profit transferred from reserves for fair value hedge accounting	(7 147)	–
Provision for impairment of available-for-sale investments	23 562	850
Profit on disposal of investment in jointly controlled entity	–	(8 833)
Interest on loan stock	9 258	6 687
	45 390	82 590
<i>Increase in</i>		
Amounts due to banks	–	201 507
Customer deposits	560 385	1 132 677
Placements with banks	–	(56 271)
General insurance business funds	491	6 835
Other assets of life assurance business	(475)	(1 064)
Loans and advances to customers	(621 653)	(556 547)
Debt securities and equity shares held for trading	–	(176 542)
Other assets	–	(32 072)
Other liabilities	32 327	–
<i>Decrease in</i>		
Placements with banks	7 515	–
Amounts due to banks	(124 741)	–
Debt securities and equity shares held for trading	240 401	–
Other liabilities	–	(3 527)
Other assets	12 306	–
Debt securities is issue	(3 462)	–
	148 484	597 586
Tax paid	(12 814)	(26 300)
Net cash flows from operating activities	135 670	571 286

Notes to the Financial Statements

36. ACQUISITION OF BROKERAGE COMPANY

On 9 May 2001 Bank of Cyprus Ltd acquired 100% of the issued share capital of Victory Securities SA, a brokerage company which was renamed Kyprou Securities SA. Kyprou Securities SA is registered in Greece and its principal activity is the provision of brokerage services.

The cost of acquisition was C£2 724 thousand and was settled in cash. The fair value of the net assets acquired was C£1 551 thousand and included cash and cash equivalents of C£202 thousand. The goodwill arising on acquisition is amortised to the Income Statement over a period of 10 years.

The assets and liabilities acquired are summarised as follows:

	C£000
Cash and cash equivalents	202
Tangible and intangible assets	265
Other assets	1 319
Other liabilities	(235)
Fair value of net assets acquired	1 551
Cost of acquisition	2 724
Goodwill	1 173

The net cash outflow on acquisition is:

Cost of acquisition	2 724
Cash and cash equivalents acquired	(202)
Net cash outflow on acquisition of subsidiary	2 522

37. CASH AND CASH EQUIVALENTS

	2002 C£000	2001 C£000
At 1 January	1 733 257	1 388 784
Exchange adjustments	70	(139)
Net (decrease)/increase in cash and cash equivalents for the year	(90 525)	344 612
At 31 December	1 642 802	1 733 257
Cash and balances with central banks	570 478	364 528
Treasury bills	222 773	243 411
Placements with banks repayable within three months	849 551	1 125 318
	1 642 802	1 733 257

38. OPERATING LEASES

The amounts of annual commitments under non-cancellable operating leases and the period for which the commitment is in force are:

	The Group	
	2002 C€000	2001 C€000
<i>Operating leases which expire</i>		
Within one year	3	4
Between two and five years	405	821
After five years	1 436	994
	1 844	1 819

The operating leases of the Company are considered cancellable.

39. RISK MANAGEMENT

The Group in the ordinary course of business is exposed to a variety of risks, the most important of which are credit risk, market risk and liquidity risk.

These risks are identified, measured and monitored through various control mechanisms across the Group in order to price facilities and products on a risk adjusted basis and to prevent undue risk concentrations.

Credit risk

Credit risk is the risk of default by counterparties to transactions. The management of specific credit risk is devolved to individual business units.

The Group credit risk management function ensures that appropriate policies are established and monitors compliance with the related credit sanction monitoring procedures and controls at the business unit level. Credit exposures are aggregated from individual business units and are monitored at Group level on a regular basis.

Portfolio monitoring is carried out on the basis of the asset quality (credit rating), sector of the economy and country. As in other parts of the Group's businesses, regular audits are performed by the Group Internal Audit Division.

The Group's exposure to risk from its lending activities is diversified both geographically and in the various sectors of the economy (Note 16)

Market risk

Market risk is the risk of adverse movements in the level of interest rates, in the rates of exchange between currencies and the current prices of securities and other financial contracts. Accordingly, these movements may affect the Group's profitability. Market risk is actively managed at an individual business unit level and is monitored and reviewed at both individual business and Group level by an independent Group Risk Management function to ensure compliance with market risk limits. The Group Asset/Liability Committee has set specific strategy and strict open position limits for managing the risks from changes in exchange rates and interest rates.

The position of the Group regarding interest rate risk and currency risk is analysed below.

Notes to the Financial Statements

39. RISK MANAGEMENT (continued)

Interest Rate Risk - 2002

Analysis of assets and liabilities as at 31 December 2002, according to their repricing or maturity date:

	On demand and up to one month C€000	Between one and three months C€000	Between three months and one year C€000	Between one and five years C€000	Over five years C€000	Non-interest bearing C€000	Total C€000
Assets							
Cash and balances with central banks	528 458	–	–	–	–	42 020	570 478
Treasury bills	116 663	–	106 110	–	–	–	222 773
Placements with banks	715 138	137 494	71 002	–	–	57	923 691
Loans and advances to customers	3 712 885	651 214	248 692	118 023	35 928	–	4 766 742
Debt securities	182 160	374 853	109 293	274 753	115 258	–	1 056 317
Equity shares	–	–	–	–	–	45 574	45 574
Tangible, intangible and other assets	–	–	–	–	–	364 197	364 197
Total assets	5 255 304	1 163 561	535 097	392 776	151 186	451 848	7 949 772
Liabilities							
Amounts due to banks	116 121	52 976	36 799	–	–	–	205 896
Customer deposits	4 441 333	967 650	1 068 923	137 126	24 485	196 751	6 836 268
Debt securities in issue	–	–	–	–	–	288	288
Accruals, deferred income and other liabilities	–	–	–	–	–	214 764	214 764
	4 557 454	1 020 626	1 105 722	137 126	24 485	411 803	7 257 216
Subordinated loan stock	17 300	165 320	3 916	–	–	–	186 536
Total liabilities	4 574 754	1 185 946	1 109 638	137 126	24 485	411 803	7 443 752
Total position	680 550	(22 385)	(574 541)	255 650	126 701	40 045	506 020
Nominal amount of interest rate derivative instruments							
	(133 595)	134 157	204 002	(86 281)	(118 283)	–	–
Net position	546 955	111 772	(370 539)	169 369	8 418	40 045	506 020

Interest rate risk arises as a result of timing differences on the repricing of assets and liabilities. The Group closely monitors interest rate movements and the repricing maturity structure of its assets and liabilities. In order to monitor interest rate risk, maximum loss limits have been set for each unit. The Group Risk Management Unit has the responsibility for monitoring these limits.

39. RISK MANAGEMENT (continued)**Interest Rate Risk - 2001**

Analysis of assets and liabilities as at 31 December 2001, according to their repricing or maturity date:

	On demand and up to one month C€000	Between one and three months C€000	Between three months and one year C€000	Between one and five years C€000	Over five years C€000	Non-interest bearing C€000	Total C€000
Assets							
Cash and balances with central banks	311 855	–	25 256	–	–	27 417	364 528
Treasury bills	37 945	48 000	157 466	–	–	–	243 411
Placements with banks	1 000 729	95 680	89 574	1 486	–	19 504	1 206 973
Loans and advances to customers	3 384 864	470 997	202 345	120 848	45 740	–	4 224 794
Debt securities	211 484	365 044	69 642	306 754	114 758	–	1 067 682
Equity shares	–	–	–	–	–	52 884	52 884
Tangible, intangible and other assets	–	–	–	–	–	337 242	337 242
Total assets	4 946 877	979 721	544 283	429 088	160 498	437 047	7 497 514
Liabilities							
Amounts due to banks	277 948	46 257	5 718	77	–	637	330 637
Customer deposits	4 239 583	670 977	946 294	264 869	–	155 461	6 277 184
Debt securities in issue	–	–	3 200	–	–	550	3 750
Accruals, deferred income and other liabilities	–	–	–	–	–	157 646	157 646
	4 517 531	717 234	955 212	264 946	–	314 294	6 769 217
Subordinated loan stock	–	157 874	25 000	4 368	–	–	187 242
Total liabilities	4 517 531	875 108	980 212	269 314	–	314 294	6 956 459
Total position	429 346	104 613	(435 929)	159 774	160 498	122 753	541 055
Nominal amount of interest rate derivative instruments							
	(42 046)	137 058	84 482	(75 517)	(103 977)	–	–
Net position	387 300	241 671	(351 447)	84 257	56 521	122 753	541 055

Notes to the Financial Statements

39. RISK MANAGEMENT (continued)

Currency Risk - 2002

Analysis of assets and liabilities as at 31 December 2002 by currency:

	CYP C£000	EURO C£000	USD C£000	GBP C£000	Other C£000	Total C£000
Assets						
Cash and balances with central banks	414 408	67 863	63 111	20 198	4 898	570 478
Treasury bills	222 773	–	–	–	–	222 773
Placements with banks	83 627	130 271	502 965	150 060	56 768	923 691
Loans and advances to customers	2 280 021	1 715 180	112 171	442 286	217 084	4 766 742
Debt securities	181 665	363 295	337 734	173 623	–	1 056 317
Equity shares	33 121	10 123	2 270	60	–	45 574
Tangible and intangible assets	106 690	40 900	–	10 028	1 141	158 759
Other assets	50 712	49 231	172	7 467	2 079	109 661
Prepayments and accrued income	30 254	48 117	5 886	10 002	1 518	95 777
Total assets	3 403 271	2 424 980	1 024 309	813 724	283 488	7 949 772
Liabilities						
Amounts due to banks	14 627	132 724	34 930	5 995	17 620	205 896
Customer deposits	2 719 781	1 731 601	1 336 392	858 204	190 290	6 836 268
Debt securities in issue	288	–	–	–	–	288
Other liabilities	44 284	54 911	11 476	7 944	581	119 196
Accruals and deferred income	47 130	34 709	2 514	9 955	1 260	95 568
	2 826 110	1 953 945	1 385 312	882 098	209 751	7 257 216
Subordinated loan stock	28 916	157 620	–	–	–	186 536
Shareholders' funds	506 020	–	–	–	–	506 020
Total liabilities and shareholders' funds	3 361 046	2 111 565	1 385 312	882 098	209 751	7 949 772
Total position	42 225	313 415	(361 003)	(68 374)	73 737	
Nominal amount of currency derivatives	(66 521)	(298 611)	363 906	75 391	(73 773)	
Net currency position	(24 296)	14 804	2 903	7 017	(36)	

Currency risk results from adverse movements in the rates of exchange between currencies when there is a net currency position in one or more currencies. The net position in any currency is monitored on a continuous basis so that it lies within set limits. Currency risk exposure also arises on the net position of the Group's investments in overseas subsidiaries and branches. These investments are hedged by maintaining liabilities for the same amount in the same currency as the investment.

39. RISK MANAGEMENT (continued)**Currency Risk - 2001**

Analysis of assets and liabilities as at 31 December 2001 by currency:

	CYP C€000	EURO C€000	USD C€000	GBP C€000	Other C€000	Total C000
Assets						
Cash and balances with central banks	217 644	98 628	16 733	13 613	17 910	364 528
Treasury bills	243 411	–	–	–	–	243 411
Placements with banks	33 862	211 018	708 306	212 827	40 960	1 206 973
Loans and advances to customers	2 211 111	1 257 710	150 653	435 572	169 748	4 224 794
Debt securities	246 735	319 913	325 932	175 102	–	1 067 682
Equity shares	43 346	7 721	1 817	–	–	52 884
Tangible and intangible assets	97 441	38 856	–	12 156	1 477	149 930
Other assets	65 198	48 452	2 801	3 278	144	119 873
Prepayments and accrued income	25 528	26 905	5 212	6 090	3 704	67 439
Total assets	3 184 276	2 009 203	1 211 454	858 638	233 943	7 497 514
Liabilities						
Amounts due to banks	24 466	144 004	10 206	(5 310)	157 271	330 637
Customer deposits	2 569 710	1 193 510	1 422 921	833 973	257 070	6 277 184
Debt securities in issue	3 750	–	–	–	–	3 750
Other liabilities	41 349	17 004	820	5 071	18 721	82 965
Accruals and deferred income	42 630	16 071	3 489	9 759	2 732	74 681
	2 681 905	1 370 589	1 437 436	843 493	435 794	6 769 217
Subordinated loan stock	29 368	157 874	–	–	–	187 242
Shareholders' funds	541 055	–	–	–	–	541 055
Total liabilities and shareholders' funds	3 252 328	1 528 463	1 437 436	843 493	435 794	7 497 514
Total position	(68 052)	480 740	(225 982)	15 145	(201 851)	
Nominal amount of currency derivatives	21 730	(435 728)	223 781	(13 593)	203 810	
Net currency position	(46 322)	45 012	(2 201)	1 552	1 959	

Notes to the Financial Statements

39. RISK MANAGEMENT (continued)

Liquidity Risk - 2002

Analysis of assets and liabilities as at 31 December 2002 according to their maturity:

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
	C€000	C€000	C€000	C€000	C€000	C€000
Assets						
Cash and balances with central banks	316 358	–	–	–	254 120	570 478
Treasury bills	38 896	–	106 110	77 767	–	222 773
Placements with banks	712 057	137 494	74 140	–	–	923 691
Loans and advances to customers	1 424 156	282 447	812 511	1 597 848	649 780	4 766 742
Debt securities	113 834	14 860	90 050	540 505	297 068	1 056 317
Equity shares	4 232	–	–	15 867	25 475	45 574
Tangible and intangible assets	–	–	–	–	158 759	158 759
Other assets	24 125	11 340	18 674	17 747	37 775	109 661
Prepayments and accrued income	23 881	24 251	33 192	9 350	5 103	95 777
Total assets	2 657 539	470 392	1 134 677	2 259 084	1 428 080	7 949 772
Liabilities						
Amounts due to banks	109 246	56 687	39 963	–	–	205 896
Customer deposits	2 739 192	1 463 864	2 071 651	537 079	24 482	6 836 268
Debt securities in issue	–	–	–	–	288	288
Other liabilities	43 025	17 876	13 691	5 328	39 276	119 196
Accruals and deferred income	24 853	22 568	31 001	14 341	2 805	95 568
	2 916 316	1 560 995	2 156 306	556 748	66 851	7 257 216
Subordinated loan stock	–	–	3 916	–	182 620	186 536
Total liabilities	2 916 316	1 560 995	2 160 222	556 748	249 471	7 443 752
Net position	(258 777)	(1 090 603)	(1 025 545)	1 702 336	1 178 609	506 020

Liquidity risk is the risk that the Group will suffer losses as a result of its inability to meet payment obligations and potential payment obligations as and when they fall due.

The Group's banking business requires a stable flow of funds both to replace existing deposits as they mature and to satisfy demands of customers for additional borrowing. Undrawn borrowing facility commitments and the level of outstanding contingent obligations are taken into consideration in monitoring the Group's liquidity position.

A substantial portion of Group assets is funded by core deposits. The distribution of sources and maturities of deposits is managed actively in order to avoid a concentration of funding needs at any one time or from a small number of depositors.

To manage this risk, the Group maintains at all times a diversified stock of highly liquid assets in the principal currencies.

The responsibility for liquidity rests with the Treasury Division at each location, subject to overall control by Group treasury.

The liquidity risk tables have been prepared in accordance with International Financial Reporting Standards which provide that assets and liabilities are analysed in the time bands above, according to the remaining period to maturity from the Balance Sheet date. Management considers it important to monitor the net position in the period up to one month, as in later periods there is sufficient time for the implementation of corrective measures. Liquidity ratios for the open liquidity position of up to one month, are also set by the regulators.

39. RISK MANAGEMENT (continued)**Liquidity Risk - 2001**

Analysis of assets and liabilities as at 31 December 2001 according to their maturity:

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
	€000	€000	€000	€000	€000	€000
Assets						
Cash and balances with central banks	45 806	–	–	–	318 722	364 528
Treasury bills	37 945	48 000	39 858	117 608	–	243 411
Placements with banks	1 019 299	106 019	80 586	1 069	–	1 206 973
Loans and advances to customers	1 279 538	299 442	678 053	1 380 183	587 578	4 224 794
Debt securities	8 989	89 274	134 885	561 623	272 911	1 067 682
Equity shares	8 313	–	–	12 104	32 467	52 884
Tangible and intangible assets	–	–	–	–	149 930	149 930
Other assets	43 997	–	8 801	3 707	63 368	119 873
Prepayments and accrued income	12 793	19 278	31 251	2 051	2 066	67 439
Total assets	2 456 680	562 013	973 434	2 078 345	1 427 042	7 497 514
Liabilities						
Amounts due to banks	165 336	46 262	119 018	21	–	330 637
Customer deposits	3 174 129	928 377	1 784 044	383 784	6 850	6 277 184
Debt securities in issue	–	–	–	3 200	550	3 750
Other liabilities	25 818	2 685	2 256	2 285	49 921	82 965
Accruals and deferred income	20 575	17 797	24 245	9 385	2 679	74 681
	3 385 858	995 121	1 929 563	398 675	60 000	6 769 217
Subordinated loan stock	–	–	–	4 368	182 874	187 242
Total liabilities	3 385 858	995 121	1 929 563	403 043	242 874	6 956 459
Net position	(929 178)	(433 108)	(956 129)	1 675 302	1 184 168	541 055

Notes to the Financial Statements

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is generally the amount which an asset could be exchanged for, or a liability settled at an arm's length transaction.

The majority of assets and liabilities are carried at fair value.

The fair value for loans and advances to customers and finance lease receivables is approximately equal to their book value, net of the related provisions for bad and doubtful debts.

Management is of the opinion that the fair value of other financial instruments is approximately equal to their carrying amount.

41. DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

The beneficial interest in shares of the Company of the directors, their spouses and minor children and of companies in which they hold (directly or indirectly) at least 20% of the voting shares, at 31 December 2002 and 24 February 2003 is stated below:

	31 December 2002 %	24 February 2003 %
S. A. Triantafyllides	0,056	0,056
Chr. S. Pantzaris	0,098	0,098
A. Agathocleous	0,007	0,007
D. P. Ioannou	0,397	0,397
V. G. Rologis	0,002	0,002
C. Z. Severis	0,454	0,454
Th. Aristodemou	0,020	0,020
D. Z. Pierides	0,001	0,001
E. Xenophontos	0,004	0,004
Chr. G. Christofides	0,062	0,062
A. Pittas	0,036	0,036
P. G. Polyviou	0,055	0,055
G. A. David	—	—
A. Artemis	0,389	0,389
A. Diogenous	0,022	0,022
G. M. Georgiades	0,046	0,046
A. Jacovides	*	0,027
Chr. Mouskis	*	0,006
	1,649	1,682

* Messrs A. Jacovides and Chr. Mouskis were not members of the Board of Directors as at 31 December 2002.

42. SHAREHOLDERS WHICH HOLD MORE THAN 5% OF THE SHARE CAPITAL OF THE COMPANY

There are no shareholders holding more than 5% of the issued share capital of the Company.

43. TRANSACTIONS WITH DIRECTORS

	Number of Directors	Total €'000
Loans and other advances to directors and connected persons:		
More than 1% of the net assets of the Company, per director	5	55 116
Less than 1% of the net assets of the Company, per director	11	8 764
	16	63 880

In addition to the above-mentioned loans and other advances, there were contingent liabilities for account of directors, in the form of documentary credits, guarantees and commitments to lend, of €15 515 thousand. Out of these €14 788 thousand relate to directors and their connected persons, whose total credit facilities exceed an amount equivalent to 1% of the net assets of the Company.

Connected persons include spouses, minor children and companies in which a director holds, directly or indirectly, at least 20% of the voting shares.

44. EVENTS AFTER THE BALANCE SHEET DATE

On 5 December 2002, the Bank's Board of Directors approved the issue of Capital Securities of up to €50 million with the option to increase the amount of the issue depending on the prevailing conditions of the stock market. The Bank has increased the amount of the issue to, and finally allotted, €65 million of Capital Securities to satisfy additional demand.

The Capital Securities were issued on 20 February 2003, in Cyprus pounds and have been offered to a limited number of investors in Cyprus, in accordance with Law 149(I) of 2002.

The Bank will submit an application for the listing of the Capital Securities on the Cyprus Stock Exchange.

The Capital Securities bear floating interest rate, which is set every three months. The interest rate is equal to the Base Rate of the Bank at the beginning of each three-month period plus 1,00%. The interest is payable quarterly.

The Capital Securities constitute direct, unsecured and subordinated securities and are classified as Tier I Capital of the Bank. The rights and claims of the holders of Capital Securities are subordinated to the claims of the creditors of the Bank, but have priority over the shareholders of the Bank.

The Capital Securities have no maturity date. However, the Capital Securities may be redeemed in whole at the option of the Bank, subject to the prior consent of the Central Bank of Cyprus, at their principal amount together with any outstanding interest payments, five years after their issue date or on any other interest payment date thereafter.

The proceeds of the issue of the Capital Securities will contribute towards the strengthening of the Bank's capital base and will support the Group's overseas expansion plans, particularly in Greece.

Auditors' Report

to the members of Bank of Cyprus Limited

- 1 We have audited the financial statements on pages 55 to 107 and have obtained all the information and explanations we considered necessary. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to the Company's members, as a body, in accordance with Section 156 of the Companies Law, Cap. 113. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

- 2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

- 3 In our opinion, proper books of account have been kept by the Company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Group and the Company as of 31 December 2002 and of the loss and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Law, Cap. 113.

Ernst & Young

Chartered Accountants

Nicosia.

25 February 2003

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